



State of California

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FOR IMMEDIATE RELEASE
February 24, 2011

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For Additional Information Contact:
Stuart Drown
Executive Director
(916) 445-2125

Commission Calls for Pension Roll-Back for Current Workers

The Little Hoover Commission on Thursday urged the Governor and the Legislature to establish the legal authority for the state and local governments to freeze pension benefits for current workers. The Commission recommends that, going forward, current workers accrue benefits under more sustainable pension plans. Payments to current retirees would not be affected.

"State and local governments cannot solve this problem without addressing the mounting pension obligations of current employees," said Daniel W. Hancock, chairman of the Little Hoover Commission.

In its report, *Public Pensions for Retirement Security*, the Commission recommends a "hybrid" model that combines a lower defined-benefit pension formula with an employer-matched and risk-managed defined-contribution plan. The Commission also suggests the state explore options to extend Social Security old-age benefits to all uncovered state and local public employees, following a model adopted for federal employees 25 years ago.

The Commission acknowledges the significant challenges to modifying pension benefits for current workers. Nonetheless, the Governor and Legislature should set uniform standards for the 85 defined-benefit pension plans in California, including:

- A cap in the \$80,000 - \$90,000 range of the maximum salary that could be used to calculate pension benefits.
- Eligibility ages for pension benefits that do not encourage early retirement.
- A requirement that employees and employers share the normal costs of funding their pension plans.
- Clear definitions of final compensation to prevent "spiking."
- A prohibition against contribution "holidays" when employers do not pay into the funds.
- A ban on retroactive pension increases.
- Steps to improve accountability and transparency.

The Little Hoover Commission is a bipartisan and independent state agency charged with recommending ways to increase the efficiency and effectiveness of state programs. The Commission's recommendations are sent to the governor and the Legislature. To obtain a copy of the report, *Public Pensions for Retirement Security*, contact the Commission or visit its Web site: www.lhc.ca.gov.